

CITY OF WHITEWOOD
WHITEWOOD, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

CITY OF WHITEWOOD

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-10
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet.	13
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Assets.	14
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	15-16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities	17
Proprietary Funds Balance Sheet.	18
Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets	19
Proprietary Funds Statement of Cash Flows	20
Notes to Financial Statements	21-36
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund.	37-38
Budgetary Comparison Schedule – Library Fund	39
Budgetary Comparison Schedule – Additional Sales Tax Fund	40
Notes to Required Supplementary Information	41
<i>Other Reports:</i>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42-43
Auditor's Comments and Closing Conference.	44-46



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INDEPENDENT AUDITOR'S REPORT

City Council
City of Whitewood
Whitewood, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, and each major fund of the **CITY OF WHITEWOOD** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 10 and 37 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KETEL THORSTENSON, LLP
Certified Public Accountants

September 19, 2011

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2010

This section of the City of Whitewood (the City) annual financial report presents our discussion and analysis of the City's financial performance during the years ended December 31, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The City's net assets from governmental and business-type activities increased by \$674,930 for the year ended December 31, 2010. This increase was primarily due to an increase in grant revenue in 2010 and to an overall decrease in expenses in 2010.

During the year ended December 31, 2010, the City's revenues generated from charges for services, taxes and other revenue of the governmental programs was \$1,149,533; \$510,461 more than the \$639,072 of governmental program expenditures, before transfers.

The City's proprietary funds revenue exceeded expenses by \$164,469 before transfers for the year ended December 31, 2010. This increase in change in net assets was due to an increase in capital grants and contributions in 2010.

For the year ended December 31, 2010, the general fund reported an increase in fund balance of \$146,555 primarily due to FEMA assistance recognized to reimburse for prior year expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds – the Water Fund and Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City you need to consider additional nonfinancial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

Governmental Activities -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

Business-Type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending for particular purposes.

State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 17 percent between 2009 and 2010 – increasing by \$674,930.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The difference between the City's assets and liabilities is its net assets.

Table A-1

Statement of Net Assets						
	Governmental		Business-type		Total	
	Activities		Activities			
	2009	2010	2009	2010	2009	2010
Current & Other Assets	\$ 817,836	\$ 1,180,777	\$ 475,087	\$ 767,373	\$1,292,923	\$ 1,948,150
Capital Assets	1,048,017	1,319,131	3,291,158	3,478,551	4,339,175	4,797,682
Total Assets	\$1,865,853	\$ 2,499,908	\$3,766,245	\$ 4,245,924	\$5,632,098	\$ 6,745,832
Long-Term Debt	\$ 477,898	\$ 629,581	\$1,055,531	\$ 1,175,999	\$1,533,429	\$ 1,805,580
Other Liabilities	27,264	31,192	62,276	225,001	89,540	256,193
Total Liabilities	\$ 505,162	\$ 660,773	\$1,117,807	\$ 1,401,000	\$1,622,969	\$ 2,061,773
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$ 577,541	\$ 696,207	\$2,239,219	\$ 2,377,322	\$2,816,760	\$ 3,073,529
Restricted	81,561	425,431	65,807	90,205	147,368	515,636
Unrestricted	701,589	717,497	343,412	377,397	1,045,001	1,094,894
Total Net Assets	\$1,360,691	\$ 1,839,135	\$2,648,438	\$ 2,844,924	\$4,009,129	\$ 4,684,059
Beginning Net Assets	\$1,318,495	\$ 1,360,691	\$2,718,481	\$ 2,648,438	\$4,036,976	\$ 4,009,129
Change in Net Assets	42,196	478,444	(70,043)	196,486	(27,847)	674,930
Percentage of Change						
Net Assets	3.20%	35.16%	-2.58%	7.42%	-0.69%	16.83%

Changes in Net Assets

The City's revenues (excluding transfers and gain on capital assets) totaled \$1,737,360 for the year ended December 31, 2010. (See Table A-2). The total cost of all programs and services decreased for the year ended December 31, 2010. The City's expenses cover a range of services, with over 51 percent related to public works, public safety, culture and recreation, and general government. (See Figure A-3)

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Figure A-2: 2010 Revenues

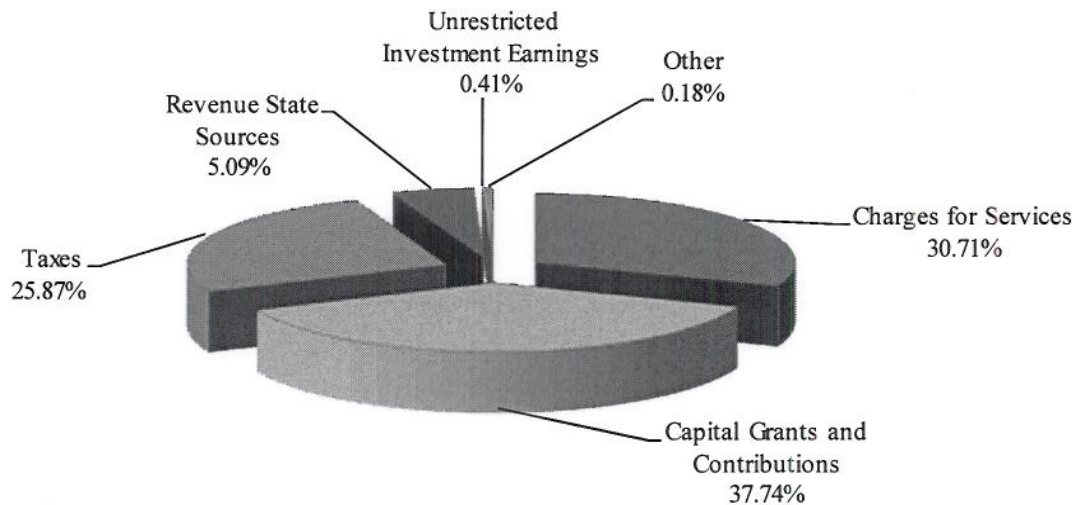
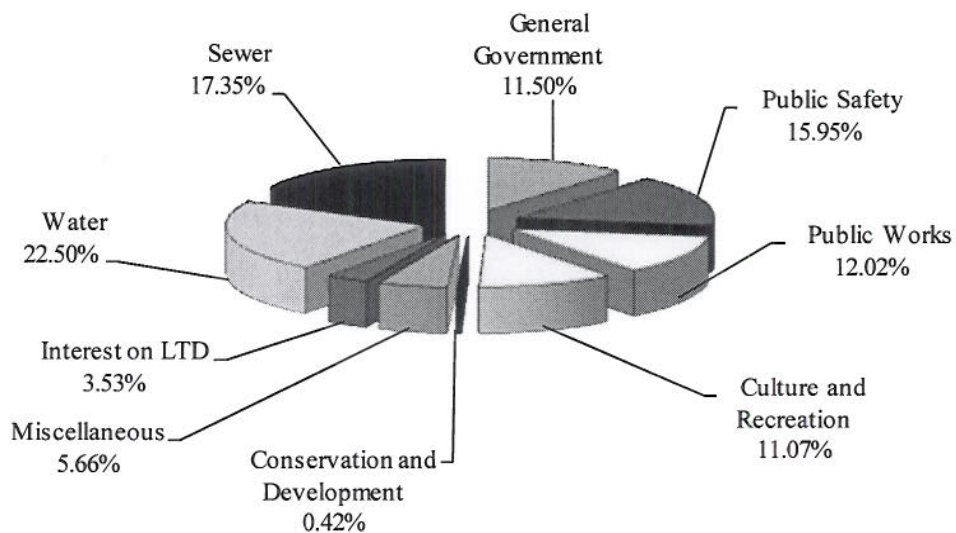


Figure A-3: 2010 Expenditures



CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Change in Net Assets (Concluded)

Table A-2

	Total Governmental Activities		Total Business-type Activities		Grand Total	
	2009	2010	2009	2010	2009	2010
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 161,419	\$ 159,214	\$ 357,075	\$ 374,257	\$ 518,494	\$ 533,471
Capital Grants and Contributions	129,261	445,055	11,650	210,587	140,911	655,642
<i>General Revenues</i>						
Taxes	419,483	449,502	-	-	419,483	449,502
Revenue State Sources	89,896	88,464	-	-	89,896	88,464
Unrestricted Investment Earnings	2,251	4,190	1,326	2,983	3,577	7,173
Other	48,752	3,108	-	-	48,752	3,108
Total Revenues	851,062	1,149,533	370,051	587,827	1,221,113	1,737,360
Expenses						
General Government	130,493	122,199	-	-	130,493	122,199
Public Safety	162,543	169,394	-	-	162,543	169,394
Public Works	271,725	127,709	-	-	271,725	127,709
Culture and Recreation	103,963	117,629	-	-	103,963	117,629
Conservation and Development	300	4,500	-	-	300	4,500
Interest on Long-Term Debt	76,813	37,477	-	-	76,813	37,477
Miscellaneous	64,355	60,164	-	-	64,355	60,164
Water Services	-	-	238,267	239,026	238,267	239,026
Sewer Services	-	-	200,501	184,332	200,501	184,332
Total Expenses	810,192	639,072	438,768	423,358	1,248,960	1,062,430
Excess Revenues						
Before Transfers	40,870	510,461	(68,717)	164,469	(27,847)	674,930
Transfers	1,326	(32,017)	(1,326)	32,017	-	-
Increase in Net Assets	\$ 42,196	\$ 478,444	\$ (70,043)	\$ 196,486	\$ (27,847)	\$ 674,930
Ending Net Assets	\$ 1,360,691	\$ 1,839,135	\$ 2,648,438	\$ 2,844,924	\$ 4,009,129	\$ 4,684,059

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

During 2010, revenues of the City's governmental activities exceeded expenses by \$510,461. This is an increase over the prior year due to more capital grants and lower expenses.

Business-type Activities

During 2010, revenues of the City's business-type activities exceeded expenses by \$164,469. This increase was due primarily to a \$198,937 increase in capital grants received during 2010.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and two business-type funds. Most of the City's funds had some gain during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

A contingency transfer was made for the year ending December 31, 2010 for unforeseen expenses in the General Fund.

The general fund budget for 2010 was \$602,615 and the actual amount spent was \$641,090, which resulted in a difference of 38,475. This additional expense was related to the start of the Trunk Sewer Project.

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

CAPITAL ASSET ADMINISTRATION

The City had invested in a broad range of capital assets at December 31, 2010 and 2009, respectively, including land, buildings, various machinery and equipment. (See Table A-3)

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Land	\$ 20,200	\$ 20,200	\$ 23,253	\$ 23,253
Buildings	147,320	143,140	764,686	709,018
Improvements	798,750	779,281	2,431,291	2,393,809
Machinery and Equipment	81,747	166,867	25,339	29,594
Construction Work in Progress	-	209,643	46,589	322,877
Totals	\$ 1,048,017	\$ 1,319,131	\$ 3,291,158	\$ 3,478,551

The 2010 major governmental capital asset additions included \$108,500 for a loader and approximately \$245,000 for the construction in progress related to the Trunk Sewer Project.

The 2010 major business-type capital asset additions included approximately \$258,000 for the construction in progress related to the Trunk Sewer Project.

LONG-TERM DEBT

At December 31, 2010 and 2009, the City had \$1,805,580 and \$1,533,429, respectively, in long-term debt.

Outstanding Debt and Obligations				
	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Sales Tax Revenue Bonds	\$ 180,165	\$ 172,988	\$ -	\$ -
Tax Incremental District #1	171,455	232,752	-	-
Special Assessment Bonds	118,856	130,665	-	-
Capital Lease	-	86,519	-	-
Compensated Absences	7,422	6,657	3,592	3,617
Water Revenue Bonds	-	-	894,690	885,311
Sewer Revenue Bonds	-	-	-	50,693
State Revolving Fund Loans	-	-	130,195	121,590
Rural Development Loan	-	-	27,054	23,204
NRWA Loan	-	-	-	91,584
Total	\$ 477,898	\$ 629,581	\$ 1,055,531	\$ 1,175,999

CITY OF WHITEWOOD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED) DECEMBER 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the year ended December 31, 2010, the City experienced an increase in total property valuation of \$467,178. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$7,423 for the year ended December 31, 2010. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced an increase in taxable sales of 9.5 percent during 2010 and has budgeted for an increase in sales tax revenue for 2011.

The City's adopted General Fund budget for 2011 will be \$568,395. The largest portion of this decrease is reduction in purchases of new City equipment in 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Whitewood Finance Office, 625 Fifth Street, Whitewood, SD 57783.

CITY OF WHITEWOOD

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and Investments (Note 2)	\$ 697,502	\$ 448,133	\$ 1,145,635
Accounts Receivable	450,847	217,507	668,354
Restricted Investments (Note 2)	20,178	90,205	110,383
Deferred Charges, Net of Amortization (Note 1)	-	11,528	11,528
Deposit (Note 10)	12,250	-	12,250
Capital Assets (Note 7):			
Land and Construction in Progress	229,843	346,130	575,973
Other Capital Assets, Net of Depreciation	1,089,288	3,132,421	4,221,709
TOTAL ASSETS	\$ 2,499,908	\$ 4,245,924	\$ 6,745,832
Liabilities:			
Accounts Payable	\$ 19,290	\$ 196,925	\$ 216,215
Other Current Liabilities	11,902	28,076	39,978
Noncurrent Liabilities (Note 5):			
Due Within One Year	176,790	46,870	223,660
Due in More Than One Year	452,791	1,129,129	1,581,920
TOTAL LIABILITIES	660,773	1,401,000	2,061,773
Net Assets:			
Invested in Capital Assets, Net of Related Debt	696,207	2,377,322	3,073,529
Restricted for:			
Debt Service	87,710	90,205	177,915
Deposit - SDPAA (Note 10)	12,250	-	12,250
Library	37,260	-	37,260
Additional Sales Tax	69,417	-	69,417
Economic Development	218,794	-	218,794
Unrestricted	717,497	377,397	1,094,894
TOTAL NET ASSETS	1,839,135	2,844,924	4,684,059
TOTAL LIABILITIES AND NET ASSETS	\$ 2,499,908	\$ 4,245,924	\$ 6,745,832

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	--- Program Revenues ---		Net (Expense) Revenue and ----- Changes in Net Assets -----		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General Government	\$ 122,199	\$ 2,606	\$ 8,646	\$ (110,947)	\$ -	\$ (110,947)
Public Safety	169,394	978	-	(168,416)	-	(168,416)
Public Works	127,709	55,377	432,909	360,577	-	360,577
Culture and Recreation	117,629	7,120	3,500	(107,009)	-	(107,009)
Conservation and Development	4,500	-	-	(4,500)	-	(4,500)
Miscellaneous	60,164	93,133	-	32,969	-	32,969
Interest on Long Term Debt	37,477	-	-	(37,477)	-	(37,477)
Total Governmental Activities	639,072	159,214	445,055	(34,803)	-	(34,803)
Business-Type Activities:						
Water	239,026	201,639	23,927	-	(13,460)	(13,460)
Sewer	184,332	172,618	186,660	-	174,946	174,946
Total Business-Type Activities	423,358	374,257	210,587	-	161,486	161,486
Total Primary Government	\$ 1,062,430	\$ 533,471	\$ 655,642	(34,803)	161,486	126,683
General Revenues:						
Taxes:						
Property Taxes				251,012	-	251,012
Sales Taxes				198,490	-	198,490
State Shared Revenue				88,464	-	88,464
Unrestricted Investment Earnings				4,190	2,983	7,173
Miscellaneous Revenue				3,108	-	3,108
Transfers				(32,017)	32,017	-
Total General Revenue and Transfers				513,247	35,000	548,247
Change in Net Assets				478,444	196,486	674,930
Net Assets, Beginning				1,360,691	2,648,438	4,009,129
Net Assets, Ending				\$ 1,839,135	\$ 2,844,924	\$ 4,684,059

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Assets				
101 Cash and Investments (Note 2)	\$ 343,477	\$ 38,734	\$ 68,965	\$ 173,334
107 Restricted Investments (Note 2)	20,178	-	-	-
108 Property Taxes Receivable	20,549	-	-	-
110 Sales Taxes Receivable	11,432	-	452	-
115 Accounts Receivable	19,533	-	-	-
121 Special Assessments Receivable	-	-	-	-
128 Loan Receivable - West River Foundation (Note 11)	-	-	-	40,000
154 Deposit - SDPAA (Note 10)	12,250	-	-	-
Total Assets	\$ 427,419	\$ 38,734	\$ 69,417	\$ 213,334
Liabilities and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ 13,912	\$ 817	\$ -	\$ -
216 Accrued Wages Payable	2,745	657	-	-
220 Customer Deposits	8,500	-	-	-
224 Deferred Revenue (Note 3)	20,548	-	-	-
Total Liabilities	45,705	1,474	-	-
<i>Fund Balances</i>				
<i>261 Reserved Fund Balances</i>				
261.04 Reserved for Debt Service	14,718	-	-	-
261.16 Reserved for Loan Receivable - West River Foundation	-	-	-	40,000
261.16 Reserved for Deposit - SDPAA	12,250	-	-	-
261.16 Reserved for Park Improvements	5,460	-	-	-
<i>262 Unreserved Fund Balances</i>				
262.02 Designated - Memorial Park	19,716	-	-	-
262.03 Designated - Capital Outlay	-	20,000	-	-
262.09 Undesignated	329,570	17,260	69,417	173,334
Total Fund Balances	381,714	37,260	69,417	213,334
Total Liabilities and Fund Balances	\$ 427,419	\$ 38,734	\$ 69,417	\$ 213,334

The accompanying notes are an integral part of the financial statements.

<u>Trunk Sewer Fund</u>	<u>Special Assessment Debt Service Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ 72,992	\$ -	\$ 697,502
-	-	-	20,178
-	-	-	20,549
-	-	-	11,884
-	-	4,561	24,094
-	354,320	-	354,320
-	-	-	40,000
-	-	-	12,250
<u>\$ -</u>	<u>\$ 427,312</u>	<u>\$ 4,561</u>	<u>\$ 1,180,777</u>

\$ -	\$ -	\$ 4,561	\$ 19,290
-	-	-	3,402
-	-	-	8,500
-	354,320	-	374,868
-	354,320	4,561	406,060

-	-	-	14,718
-	-	-	40,000
-	-	-	12,250
-	-	-	5,460
-	-	-	19,716
-	-	-	20,000
-	72,992	-	662,573
-	72,992	-	774,717
<u>\$ -</u>	<u>\$ 427,312</u>	<u>\$ 4,561</u>	<u>\$ 1,180,777</u>

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Total Fund Balances - Governmental Funds \$ 774,717

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 1,319,131

Long-term liabilities, including bonds payable, and compensated absences are not
due and payable in the current period and therefore are not reported in the funds. (629,581)

Assets, such as delinquent taxes receivable, special assessments receivable and due
from governments, are not available to pay for current period expenditures and
therefore are deferred in the funds. 374,868

Total Net Assets - Governmental Funds	\$ 1,839,135
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The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Revenue	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
<i>Taxes:</i>				
311 General Property Taxes	\$ 155,376	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	187,754	-	10,736	-
315 Amusement Taxes	168	-	-	-
319 Penalties and Interest on Delinquent Taxes	581	-	-	-
320 Licenses and Permits	2,606	-	-	-
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	-	61,320	-	-
331 Federal Grants	107,599	-	-	-
334 State Grants	24,492	1,950	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	476	-	-	-
335.03 Liquor Tax Reversion	3,821	-	-	-
335.04 Motor Vehicle Licenses (5%)	5,840	-	-	-
335.08 Local Government Highway and Bridge Fund	5,851	-	-	-
335.20 Other	22,847	-	-	-
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	3,058	-	-	-
<i>Charges for Goods and Services:</i>				
344 Sanitation	38,031	-	-	-
345 Health	173	-	-	-
346 Culture and Recreation	6,903	217	-	-
349 Other	2,597	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	500	-	-	-
359 Other	305	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	1,481	515	541	1,361
363 Special Assessments	-	-	-	-
367 Contributions and Donations	3,500	-	-	-
368 Liquor Operating Agreement Income	93,133	-	-	-
369 Miscellaneous Revenue	1,088	12	-	-
Total Revenue	668,180	64,014	11,277	1,361

<u>Trunk Sewer Fund</u>	<u>Special Assessment Debt Service Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 85,333	\$ 240,709
-	-	-	198,490
-	-	-	168
-	-	-	581
-	-	-	2,606
-	-	-	61,320
-	-	-	107,599
-	-	-	26,442
-	-	-	476
-	-	-	3,821
-	-	-	5,840
-	-	-	5,851
-	-	-	22,847
-	-	-	3,058
-	-	-	38,031
-	-	-	173
-	-	-	7,120
-	-	-	2,597
-	-	-	500
-	-	-	305
-	292	-	4,190
-	46,150	-	46,150
-	-	-	3,500
-	-	-	93,133
-	-	-	1,100
-	46,442	85,333	876,607

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General Fund</u>	<u>Library Fund</u>	<u>Additional Sales Tax Fund</u>	<u>Economic Development Fund</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	39,833	-	-	-
412 Executive	4,102	-	-	-
413 Elections	843	-	-	-
414 Financial Administration	49,688	-	-	-
419 Other	27,733	-	-	-
<i>Public Safety:</i>				
421 Police	156,855	-	-	-
423 Protective Inspection	5,476	-	-	-
<i>Public Works:</i>				
431 Highway and Streets	63,894	-	-	-
432 Sanitation	36,679	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	39,874	-	-	-
455 Library	-	61,270	-	-
<i>Conservation and Development:</i>				
465 Economic Development	300	-	4,200	-
470 Debt Service	38,949	-	-	-
485 Capital Outlay	116,700	-	-	-
<i>Miscellaneous:</i>				
499 Liquor Operating Agreements	60,164	-	-	-
Total Expenditures	641,090	61,270	4,200	-
Other Financing Sources (Uses)				
391.01 Transfers In (Note 6)	5,177	-	-	-
391.03 Sale of Capital Assets	5,788	-	-	-
391.20 Long Term Debt Issued	-	-	-	-
391.22 Special Assessment Bonds Issued	-	-	-	-
391.27 Capital Lease	108,500	-	-	-
511 Transfers Out (Note 6)	-	-	(541)	(1,361)
Total Other Financing Sources (Uses)	119,465	-	(541)	(1,361)
Net Change in Fund Balances	146,555	2,744	6,536	-
Fund Balances - December 31, 2009	235,159	34,516	62,881	213,334
Fund Balances - December 31, 2010	\$ 381,714	\$ 37,260	\$ 69,417	\$ 213,334

The accompanying notes are an integral part of the financial statements.

<u>Trunk Sewer Fund</u>	<u>Special Assessment Debt Service Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Total Governmental Funds</u>
-	-	-	39,833
-	-	-	4,102
-	-	-	843
-	-	-	49,688
-	-	-	27,733
-	-	-	156,855
-	-	-	5,476
-	-	-	63,894
-	-	-	36,679
-	-	-	39,874
-	-	-	61,270
-	-	-	4,500
-	27,127	85,957	152,033
33,504	-	125,000	275,204
-	-	-	60,164
33,504	27,127	210,957	978,148
-	-	-	5,177
-	-	-	5,788
-	-	125,000	125,000
33,504	-	-	33,504
-	-	-	108,500
-	(292)	-	(2,194)
33,504	(292)	125,000	275,775
-	19,023	(624)	174,234
-	53,969	624	600,483
\$ -	\$ 72,992	\$ -	\$ 774,717

CITY OF WHITEWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds \$ 174,234

Amounts reported for governmental activities in the Statement of Activities
are different because:

This amount represents capital asset purchases which are reported as
expenditures on the fund financial statements, but increase assets on the
Statement of Net Assets. 240,204

Capital assets contributed to the City, which are included in the Statement of
Activities. 86,139

This amount represents the current year depreciation expense reported in the
Statement of Activities, which is not reported on the fund financial
statements because it does not require the use of current financial resources. (51,449)

In the Statement of Activities, gains and losses on disposal of capital assets
are reported, whereas, in the governmental funds, the proceeds from the
disposal of capital assets are reflected, regardless of whether a gain or loss is
realized. (3,780)

The fund financial statement governmental fund property tax accruals differ
from the government wide statement property tax accruals in that the fund
financial statements require the amounts to be "available." 9,554

Governmental funds report special assessments as revenue when available,
but the Statement of Activities includes the full amount of special
assessments as revenue upon completion of the project at the point when an
enforceable legal claim arises. 300,620

Governmental funds report due from governments as revenue when available,
but the Statement of Activities includes the due from governments upon
expenditure of allowable costs. (125,395)

The issuance of long-term debt is an other financing source in the fund
statements, but an increase in long-term liabilities in the Statement of Net
Assets. (267,004)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net
Assets. 114,556

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. 765

Change in Net Assets of Governmental Activities	\$ 478,444
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The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Water Fund	Sewer Fund	Total Proprietary Funds
Assets			
Current Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 327,991	\$ 120,142	\$ 448,133
107 Restricted Cash and Cash Equivalents (Note 2)	85,249	4,956	90,205
115 Accounts Receivable	15,853	14,625	30,478
117 Unbilled Accounts Receivable	5,113	4,827	9,940
132 Due from Other Government - Grant	-	177,089	177,089
Total Current Assets	434,206	321,639	755,845
Noncurrent Assets			
159 Deferred Charges	9,030	2,950	11,980
191 Accumulated Amortization	(452)	-	(452)
Capital Assets (Note 7):			
160 Land	-	23,253	23,253
162 Buildings	664,728	845,641	1,510,369
163 Accumulated Depreciation - Buildings	(101,866)	(699,485)	(801,351)
164 Improvements Other Than Buildings	2,322,331	872,386	3,194,717
165 Accumulated Depreciation - Improvements Other than Buildings	(479,507)	(321,401)	(800,908)
166 Machinery and Equipment	89,005	38,893	127,898
167 Accumulated Depreciation - Machinery and Equipment	(68,043)	(30,261)	(98,304)
168 Construction Work in Progress	72,776	250,101	322,877
Total Noncurrent Assets	2,508,002	982,077	3,490,079
Total Assets	\$ 2,942,208	\$ 1,303,716	\$ 4,245,924
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 6,880	\$ 190,045	\$ 196,925
205 Current Portion of Long-Term Debt (Note 5)	18,150	25,103	43,253
215 Accrued Interest Payable	2,252	-	2,252
216 Accrued Wages Payable	1,262	1,158	2,420
220 Customer Deposits	14,023	9,381	23,404
233 Accrued Leave Payable (Note 5)	1,844	1,773	3,617
Total Current Liabilities	44,411	227,460	271,871
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 5)	958,745	170,384	1,129,129
Total Liabilities	1,003,156	397,844	1,401,000
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	1,593,679	783,643	2,377,322
253.2 Restricted for Debt Service	85,249	4,956	90,205
252.0 Unrestricted Net Assets	260,124	117,273	377,397
Total Net Assets	1,939,052	905,872	2,844,924
Total Liabilities and Net Assets	\$ 2,942,208	\$ 1,303,716	\$ 4,245,924

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
Operating Revenue			
380 Charges for Goods and Services (Note 5)	\$ 201,639	\$ 172,618	\$ 374,257
Total Operating Revenue	<u>201,639</u>	<u>172,618</u>	<u>374,257</u>
Operating Expenses			
410 Personal Services	83,161	82,931	166,092
420 Other Current Expense	47,267	30,701	77,968
453 Amortization	226	-	226
457 Depreciation	68,247	63,243	131,490
Total Operating Expenses	<u>198,901</u>	<u>176,875</u>	<u>375,776</u>
Operating Income (Loss)	2,738	(4,257)	(1,519)
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	2,700	283	2,983
470 Interest Expense and Fiscal Charges	(40,125)	(7,457)	(47,582)
Total Non-Operating Expense	<u>(37,425)</u>	<u>(7,174)</u>	<u>(44,599)</u>
Loss Before Contributions and Transfers	(34,687)	(11,431)	(46,118)
Other Financing Sources (Uses)			
331 Federal Grants	-	177,089	177,089
391.07 Contributed Capital	48,927	19,571	68,498
511 Transfers Out (Note 6)	(2,700)	(283)	(2,983)
Total Other Financing Sources	<u>46,227</u>	<u>196,377</u>	<u>242,604</u>
Net Income	11,540	184,946	196,486
Net Assets - December 31, 2009	1,927,512	720,926	2,648,438
Net Assets - December 31, 2010	<u>\$ 1,939,052</u>	<u>\$ 905,872</u>	<u>\$ 2,844,924</u>

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Water Fund	Sewer Fund	Total Proprietary Funds
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 199,425	\$ 170,170	\$ 369,595
Payments to Suppliers	(52,318)	(30,531)	(82,849)
Payments to Employees	(84,185)	(83,896)	(168,081)
Net Cash Flows Provided by Operating Activities	62,922	55,743	118,665
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(2,700)	(283)	(2,983)
Cash Flows From Capital and Related Financing Activities:			
Purchase of Capital Assets	(51,296)	(30,243)	(81,539)
Proceeds from Capital Debt	95,000	50,693	145,693
Principal Paid on Capital Debt	(12,797)	(12,453)	(25,250)
Federal Grants	-	8,000	8,000
Interest Paid	(40,125)	(7,457)	(47,582)
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(9,218)	8,540	(678)
Cash Flows Provided by Investing Activities:			
Interest Earned	2,700	283	2,983
Increase in Cash and Cash Equivalents	53,704	64,283	117,987
Cash and Cash Equivalents - December 31, 2009	359,536	60,815	420,351
Cash and Cash Equivalents - December 31, 2010	\$ 413,240	\$ 125,098	\$ 538,338
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities			
Operating Income (Loss)	\$ 2,738	\$ (4,257)	\$ (1,519)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation Expense	68,247	63,243	131,490
Amortization Expense	226	-	226
Change in Assets and Liabilities:			
Accounts Receivable	(857)	(1,629)	(2,486)
Accounts Payable	(5,051)	170	(4,881)
Accrued Wages Payable	(1,016)	(998)	(2,014)
Customer Deposits	(1,357)	(819)	(2,176)
Accrued Leave Payable	(8)	33	25
Net Cash Flows Provided by Operating Activities	\$ 62,922	\$ 55,743	\$ 118,665
Noncash Capital and Related Financing Activities			
Capital Grants Receivable	\$ -	\$ 177,089	\$ 177,089
Purchase of Capital Assets and Deferred Charges Included in Accounts Payable	-	171,796	171,796
Capital Assets Contributed	48,927	19,571	68,498

The accompanying notes are an integral part of the financial statements.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Whitewood (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 9 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Library Fund – to account for the fines and similar charges deposited into the library board bank account. (SDCL 14-2-42) This fund is a major fund.

Additional Sales Tax Fund – to account for an additional one percent gross receipts tax which may be used only for acquisition of land, capital improvement, and promotion of the City. This fund is a major fund.

Economic Development Fund – to account for the CDBG monies received in 1991. The money is used to create revolving loans for economic development purposes. This fund is a major fund.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or governments).

Trunk Sewer Capital Projects Fund – to account for financial resources to be used for the improvement of Ash and Fillmore streets. This fund is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Special Assessment Debt Service Fund – to account for assessment payments from property owners which are used only for the payment of the Special Assessment debt principal, interest, and related cost. This fund is a major fund.

Tax Increment District #1 Debt Service Fund – to account for the property tax revenue received on the tax increment district to finance debt service and capital construction related to infrastructure improvement made within the tax increment district. This fund is a major fund.

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Proprietary Funds Continued:

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the “current financial resources” measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Whitewood, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2010 are property and sales tax receivable, and special assessments receivable.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued)

Fund Financial Statements (Continued):

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. There are no significant inter-fund utility charges.

d. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Approximately 10 percent of the total December 31, 2004, balance of the governmental activities and business-type capital assets included costs that were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund's operations, is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

d. Capital Assets (Continued)

Government-wide Financial Statements: (Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ -0-	-----N/A-----	-----N/A-----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

e. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, water, and sewer revenue bonds; state revolving loan funds; special assessment debt; Rural Development loans and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund and the government-wide financial statements.

f. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Concluded)

g. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

h. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

i. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.
3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Assets

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

k. Inventory

The City maintains no significant amounts of inventory at December 31, 2010.

l. Deferred Charges

The City defers and amortizes loan costs over the life of the loan.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments of the City consist of the following:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value at</u> <u>12/31/2010</u>
U.S. Government Securities:			
United States Treasury Note	AAA	1-6 years	\$ 40,208
Federal National Mortgage Association Notes	AAA	11 - 30 years	113,124
External Investment Pools:			
SDFIT	Unrated		361,914
Total Investments			\$ 515,246

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2010, the City’s investment in SDFIT pool was unrated.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, City districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the City’s deposits were exposed to custodial credit risk.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

(2) Deposits and Investments (Continued)

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. The City does not have more than five percent of the City's investments in any one security.

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for the library fund.

Restricted Investments:

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

For debt service, by debt covenants	\$	33,772
For capital projects, by loan agreement		71,151
For park improvements, by donors		5,460
Total Restricted Cash	\$	110,383

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but the revenue recognition criteria have not been met. Deferred revenues consist primarily of delinquent property taxes receivable and special assessments receivable.

(4) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(5) Long-Term Debt

	Balance 12/31/2009	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2010	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Revenue Bonds	\$ 180,165	\$ -	\$ 7,177	\$ 172,988	\$ 7,286
Tax Incremental District #1	171,455	125,000	63,703	232,752	89,659
Special Assessment Bonds	118,856	33,504	21,695	130,665	53,026
Capital Lease	-	108,500	21,981	86,519	20,162
Compensated Absences	7,422	7,331	8,096	6,657	6,657
Total Governmental Activities	477,898	274,335	122,652	629,581	176,790
Business-type Activities:					
Water Revenue Bonds	894,692	-	9,381	885,311	9,796
Sewer Revenue Bonds	-	50,693	-	50,693	12,161
State Revolving Fund Loans	130,195	-	8,605	121,590	8,932
Rural Development Loan	27,052	-	3,848	23,204	4,010
NRWA Loan	-	95,000	3,416	91,584	8,354
Compensated Absences	3,592	2,831	2,806	3,617	3,617
Total Business-Type Activities	1,055,531	148,524	28,056	1,175,999	46,870
Total Primary Government	\$ 1,533,429	\$ 422,859	\$ 150,708	\$ 1,805,580	\$ 223,660

The purchase price at the commencement of the financing (capital acquisition) lease was:

Principal	\$ 108,500
Interest	12,657
Total	\$ 121,157

The principal amount, above, was included in the appropriate classification of capital assets, and is being depreciated over the estimated useful-life of the asset as the title transfers at the end of the lease term.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(5) Long-Term Debt (Continued)

Long-term debt at December 31, is comprised of the following:

	<u>2010</u>
<i>Revenue Bonds</i>	
Rural Development Water Revenue Bonds, Series 2007; bears interest at 4.375 percent; due in monthly installments of \$4,028 through January 2048. Financed through the Water Fund.	\$ 885,311
Rural Development Sewer Revenue Bonds, Series 2010; bears interest at 3.00 percent; due in monthly installments of \$1,057 through December 2050. Financed through the Sewer Fund. At December 31, 2010, only a portion of the bond was drawn down, the bond totals \$295,000.	50,693
Sales Tax Revenue Bond, Series 2004; bears interest at 4.375 percent; due in monthly installments of \$1,267 through June 2026. Financed through the General Fund.	172,988
<i>Special Assessments:</i>	
Special Assessment Bond, Series 2004; bears interest at 4.57 percent; due in annual installments of \$27,127 through June 2014. Financed through the Debt Service Fund.	97,161
Special Assessment Bond, Series 2010; bears interest at 3.75 percent; due in annual installments of \$31,595 through December 2030. Financed through the Debt Service Fund. At December 31, 2010, only a portion of the bond was drawn down, the bond totals \$439,000.	33,504
<i>Tax Incremental Financing Notes:</i>	
Tax Incremental District #1; bears interest at 8 percent; due in varying installments within 30 days of property tax collection from the county. Repayment is limited to incremental property taxes collected. Financed through the TIF #1 Debt Service Fund.	232,752
<i>State Revolving Fund Revenue Bonds:</i>	
State Revolving Fund Revenue Bonds, 2001; bears interest at 5 percent; due in quarterly installments of \$3,739 through July 2021. Financed through the Sewer Fund.	121,590
<i>Loan:</i>	
Rural Development Loan, 2006; bears interest at 4.375 percent; due in monthly installments of \$413 through April 2016. Financed through the Sewer Fund.	23,204
National Rural Water Association Loan, 2010; bears interest at 3.00 percent; due in monthly installments of \$917 through August 2020. Financed through the Water Fund.	91,584
<i>Capital Lease</i>	
Capital Lease, 2010; bears interest at 4.67 percent; due in annual installments of \$24,231 through July 2014. Financed through the General Fund.	86,519
	<u>1,795,306</u>

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(5) Long-Term Debt (Continued)

Long-term debt at December 31, is comprised of the following (continued):

Compensated Absences

General Fund	5,554
Library Fund	1,103
Water Fund	1,844
Sewer Fund	1,773
Total Compensated Absences	10,274

Total Long-Term Debt	\$ 1,805,580
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The annual requirements to amortize long-term debt outstanding as of December 31, 2010, except for compensated absences are as follows:

	Revenue Bonds		Special Assessments		TID #1	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2011	\$ 47,323	\$ 29,243	\$ 5,697	\$ 53,026	\$ 15,114	\$ 89,659
2012	46,347	29,483	3,522	26,889	9,678	91,050
2013	45,070	30,657	2,319	24,808	2,065	52,043
2014	43,871	31,855	1,186	25,942	-	-
2015	42,718	23,657	-	-	-	-
2016-2020	199,284	116,134	-	-	-	-
2021-2025	170,830	144,498	-	-	-	-
2026-2030	139,461	125,132	-	-	-	-
2031-2035	113,500	128,255	-	-	-	-
2036-2040	82,248	159,552	-	-	-	-
2041-2045	43,259	198,487	-	-	-	-
2046-2049	4,346	92,039	-	-	-	-
Total	\$ 978,257	\$ 1,108,992	\$ 12,724	\$ 130,665	\$ 26,857	\$ 232,752

	State Revolving		Loan		Capital Lease		Total	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2011	\$ 6,023	\$ 8,932	\$ 3,599	\$ 12,364	\$ 4,069	\$ 20,162	\$ 81,825	\$ 213,386
2012	5,568	9,387	3,176	12,788	3,121	21,111	71,412	190,708
2013	5,090	9,865	2,718	13,246	2,128	22,103	59,390	152,722
2014	4,588	10,368	2,253	13,711	1,088	23,143	52,986	105,019
2015	4,059	10,896	1,771	14,193	-	-	48,548	48,746
2016-2020	11,383	63,392	3,508	48,486	-	-	214,175	228,012
2021-2025	274	8,750	-	-	-	-	171,104	153,248
2026-2030	-	-	-	-	-	-	139,461	125,132
2031-2035	-	-	-	-	-	-	113,500	128,255
2036-2040	-	-	-	-	-	-	82,248	159,552
2041-2045	-	-	-	-	-	-	43,259	198,487
2046-2049	-	-	-	-	-	-	4,346	92,039
Total	\$ 36,985	\$ 121,590	\$ 17,025	\$ 114,788	\$ 10,406	\$ 86,519	\$ 1,082,254	\$ 1,795,306

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(5) Long-Term Debt (Concluded)

Tax Increment Financing District (TID) Liabilities

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund
Current Year Principal and Interest	\$ 52,922	\$ 19,910
Pledged Revenue	201,639	172,618

The City has properly restricted cash in accordance with their debt covenants. See Note 2.

(6) Interfund Transfers

Interfund transfers during the year ended December 31, 2010, were as follows:

Funds	Transfers In	Transfers Out
General Fund	\$ 5,177	\$ -
Additional Sales Tax Fund	-	541
Economic Development Fund	-	1,361
Special Assessment Debt Service Fund	-	292
Tax Increment District #1 Debt Service Fund	-	35,000
Water Fund	25,000	2,700
Sewer Fund	10,000	283
Total Transfers	\$ 40,177	\$ 40,177

Transfers are used to move interest earnings from the fund that earned the revenue to the general fund for reporting in the governmental funds statement of revenue, expenditures and changes in fund balances and government-wide statement of activities in accordance with the policy adopted by the City, as well as to move water and sewer construction in progress acquired through debt borrowings of the tax increment district #1 debt service fund for reporting in the government-wide statement of net assets.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(7) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Capital Assets, not being Depreciated:				
Land	\$ 20,200	\$ -	\$ -	\$ 20,200
Construction Work in Progress	-	209,643	-	209,643
Total Capital Assets, not being Depreciated	20,200	209,643	-	229,843
Capital Assets, being Depreciated:				
Buildings	214,000	-	-	214,000
Improvements Other Than Buildings	912,171	-	-	912,171
Machinery and Equipment	357,078	116,700	12,600	461,178
Total Capital Assets, being Depreciated	1,483,249	116,700	12,600	1,587,349
Less Accumulated Depreciation for:				
Buildings	66,680	4,180	-	70,860
Improvements Other Than Buildings	113,421	19,469	-	132,890
Machinery and Equipment	275,331	27,800	8,820	294,311
Total Accumulated Depreciation	455,432	51,449	8,820	498,061
Total Governmental Activities Capital Assets, being Depreciated, Net	1,027,817	65,251	3,780	1,089,288
Total Governmental Capital Assets, Net	\$ 1,048,017	\$ 274,894	\$ 3,780	\$ 1,319,131

Depreciation expense was charged to functions as follows:

Public Works	\$ 27,901
Culture and Recreation	16,485
Public Safety	7,063
Total Depreciation Expense - Governmental	\$ 51,449

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(7) Changes in Capital Assets (Continued)

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 23,253	\$ -	\$ -	\$ 23,253
Construction Work in Progress	46,589	292,666	16,378	322,877
Total Capital Assets, not being Depreciated	69,842	292,666	16,378	346,130
Capital Assets, being Depreciated:				
Buildings	1,510,369	-	-	1,510,369
Improvements Other Than Buildings	3,167,022	27,695	-	3,194,717
Machinery and Equipment	112,998	14,900	-	127,898
Total Capital Assets, being Depreciated	4,790,389	42,595	-	4,832,984
Less Accumulated Depreciation for:				
Buildings	745,683	55,668	-	801,351
Improvements Other Than Buildings	735,731	65,177	-	800,908
Machinery and Equipment	87,659	10,645	-	98,304
Total Accumulated Depreciation	1,569,073	131,490	-	1,700,563
Total Business-type Activities Capital Assets, being Depreciated, Net	3,221,316	(88,895)	-	3,132,421
Total Business-type Capital Assets, Net	\$ 3,291,158	\$ 203,771	\$ 16,378	\$ 3,478,551

Depreciation expense was charged to functions as follows:

Water	\$ 68,247
Sewer	63,243
Total Depreciation Expense - Business-type	\$ 131,490

Construction Work in Progress as of December 31, 2010, for governmental and business-type activities consists of engineering and construction costs for the Fillmore Street Trunk Sewer Project, which was funded by the Water and Sewer Funds and the Debt Service Fund. In addition, Construction Work in Progress includes costs related to street, water, and sewer expansion within Tax Increment District #1. As of December 31, 2010, there is approximately \$879,434 of commitments associated with the projects. Completion of the projects will be funded by loans, bond issuances, and a grant.

(8) Retirement Plan -- South Dakota Retirement System

All full-time employees participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

(8) Retirement Plan -- South Dakota Retirement System (Continued)

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute 8 and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2010, 2009, and 2008 were \$16,778, \$16,103, and \$15,612, respectively, equal to the required contributions each year.

(9) Joint Venture

The City participates in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2010, the City managed its risks as follows:

Employee Health Insurance:

The City carries health insurance coverage from Sanford Health, a commercial provider. The coverage includes a \$2,000,000 lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF WHITEWOOD

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2010

(10) Risk Management (Continued)

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for police, fire, and vehicles.

The agreement with the SDPAA provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2010, the City has a vested balance in the cumulative reserve fund of **\$12,250**.

The City carries a \$2,000 deductible for the police and fire coverage and \$100 to \$250 deductible for the vehicle coverage.

The City does not carry additional liability insurance coverage to pay claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(11) Loan Receivable – West River Foundation

The City loaned \$40,000 from their Economic Development Fund to the West River Foundation (the Foundation) during 2003, which is to be repaid to the City upon default of the agreement or at such time the Foundation chooses to repay the loan. The City anticipates repayment during the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
311 General Property Taxes	\$ 171,962	\$ 171,962	\$ 155,376	\$ (16,586)
313 General Sales and Use Taxes	170,000	170,000	187,754	17,754
315 Amusement Taxes	168	168	168	-
319 Penalties and Interest on Delinquent Taxes	400	400	581	181
320 Licenses and Permits	5,000	5,000	2,606	(2,394)
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	107,599	107,599
334 State Grants	-	-	24,492	24,492
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	1,500	1,500	476	(1,024)
335.03 Liquor Tax Reversion	5,000	5,000	3,821	(1,179)
335.04 Motor Vehicle Licenses (5%)	6,000	6,000	5,840	(160)
335.08 Local Government Highway and Bridge Fund	9,000	9,000	5,851	(3,149)
335.20 Other	23,000	23,000	22,847	(153)
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	-	-	3,058	3,058
<i>Charges for Goods and Services:</i>				
344 Sanitation	42,600	42,600	38,031	(4,569)
345 Health	250	250	173	(77)
346 Culture and Recreation	-	-	6,903	6,903
349 Other	3,000	3,000	2,597	(403)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	500	500	500	-
359 Other	100	100	305	205
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	10,000	10,000	1,481	(8,519)
367 Contributions and Donations	-	-	3,500	3,500
368 Liquor Operating Agreement Income	82,800	82,800	93,133	10,333
369 Miscellaneous Revenue	1,000	1,000	1,088	88
Total Revenue	532,280	532,280	668,180	135,900

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Expenditures				
<i>General Government:</i>				
411 Legislative	53,150	49,505	39,833	9,672
412 Executive	4,625	4,625	4,102	523
413 Elections	700	845	843	2
414 Financial Administration	54,950	54,950	49,688	5,262
419 Other	26,300	28,300	27,733	567
<i>Public Safety:</i>				
421 Police	179,720	179,720	156,855	22,865
423 Protective Inspection	10,850	10,850	5,476	5,374
<i>Public Works:</i>				
431 Highways and Streets	98,525	100,025	172,394	(72,369)
432 Sanitation	36,000	36,000	36,679	(679)
<i>Culture and Recreation:</i>				
452 Parks	57,770	57,770	48,074	9,696
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	300	300	300	-
470 Debt Service	31,525	14,725	38,949	(24,224)
499 Liquor Operating Agreements	65,000	65,000	60,164	4,836
Total Expenditures	619,415	602,615	641,090	(38,475)
Excess of Revenue Over (Under)				
Expenditures	(87,135)	(70,335)	27,090	97,425
Other Financing Sources:				
391.01 Transfers In	-	-	5,177	5,177
391.03 Sale of Capital Assets	8,150	8,150	5,788	(2,362)
391.27 Capital Lease	-	-	108,500	108,500
Total Other Financing Sources	8,150	8,150	119,465	111,315
Net Change in Fund Balance	(78,985)	(62,185)	146,555	208,740
Fund Balance - December 31, 2009	235,159	235,159	235,159	-
Fund Balance - December 31, 2010	\$ 156,174	\$ 172,974	\$ 381,714	\$ 208,740

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

LIBRARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Intergovernmental Revenue:</i>				
330 Intergovernmental Revenue	\$ 61,320	\$ 61,320	\$ 61,320	\$ -
334 State Grants	-	-	1,950	1,950
<i>Charges for Goods and Services:</i>				
346 Culture and Recreation	-	-	217	217
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	515	515
369 Miscellaneous Revenue:	-	-	12	12
Total Revenue	61,320	61,320	64,014	2,694
Expenditures				
<i>Culture and Recreation:</i>				
455 Library	61,320	61,320	61,270	50
Total Expenditures	61,320	61,320	61,270	50
Net Change in Fund Balance	-	-	2,744	2,744
Fund Balance - December 31, 2009	34,516	34,516	34,516	-
Fund Balance - December 31, 2010	\$ 34,516	\$ 34,516	\$ 37,260	\$ 2,744

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
ADDITIONAL SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Basis - Actual</u>	<u>Variance</u>
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 9,000	\$ 9,000	\$ 10,736	\$ 1,736
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	-	-	541	541
Total Revenue	<u>9,000</u>	<u>9,000</u>	<u>11,277</u>	<u>2,277</u>
Expenditures				
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	8,000	8,000	4,200	3,800
Total Expenditures	<u>8,000</u>	<u>8,000</u>	<u>4,200</u>	<u>3,800</u>
Other Financing Uses				
391.1 Transfers Out	-	-	(541)	(541)
Net Change in Fund Balance	<u>1,000</u>	<u>1,000</u>	<u>6,536</u>	<u>5,536</u>
Fund Balance - December 31, 2009	<u>62,881</u>	<u>62,881</u>	<u>62,881</u>	<u>-</u>
Fund Balance - December 31, 2010	<u>\$ 63,881</u>	<u>\$ 63,881</u>	<u>\$ 69,417</u>	<u>\$ 5,536</u>

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF WHITEWOOD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2010

(1) Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2010.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, projects funds and debt service funds.
8. Budgets for the general fund and major special revenue funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER REPORTS



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Whitewood
Whitewood, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **City of Whitewood** (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and two other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference Part B Findings #2006-6, 2006-7, and 2008-1 to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference Part B Findings #2006-5 and 2010-7 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, which is described in the accompanying Auditor's Comments and Closing Conference Part B Finding #2010-7.

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the City, and federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than those specified parties. However, as required by South Dakota Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, reading "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K", "T", and "L" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

September 19, 2011

CITY OF WHITEWOOD

AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2010

A. Status of Prior Audit Findings and Recommendations

Finding No. 2006-5: Segregation of Duties

The City has implemented the recommendation as a mitigating control but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office. Therefore, the finding has been repeated in the current year.

Finding No. 2006-6: Financial Statement Preparation

The City requested the auditor to prepare the financial statements for the City in the current year. Therefore, the finding has been repeated in the current year.

Finding No. 2006-7: Internal Control over Significant Accounts

The City made efforts to record all year-end entries, but with significant capital asset and debt transactions, audit adjustments were made. Therefore, the finding has been repeated in the current year.

Finding No. 2008-1: Internal Control Deficiencies

1. The City made efforts to capitalize assets in the current year in accordance with capitalization policies, but with significant construction in progress transactions during the year, audit adjustments were made for expensed items which should have been capitalized and retainage for contracts. There were no expenses tested in the current year that were allocated over funds they were not expenses of.
2. No actual time studies have been periodically performed to substantiate the allocations of employees' time to various funds and/or expense functions.

Therefore, both of these findings have been substantially repeated.

B. Current Year Audit Findings and Recommendations

Material Weaknesses

Finding No. 2006-6: Financial Statement Preparation

Condition: We were requested to draft the audited financial statements and related footnote disclosures, as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do this with municipalities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Recommendation: As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy, we have answered any questions they might have, and we have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The City is willing to accept the risk associated with this situation.

CITY OF WHITEWOOD

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2010**

B. Current Year Audit Findings and Recommendations (Continued)

Material Weaknesses (Continued)

Finding No. 2006 – 7: Internal Control over Significant Accounts

Condition: During the course of our engagement, we proposed material audit adjustments. Adjustments included adjusting debt to actual, recording construction in progress and capitalizing assets, recording accounts payable and accounts receivable, and recording grant revenue and contributed capital. There were immaterial unrecorded adjusting journal entries that would have resulted in \$5,222 decrease in net assets.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Recommendation: We recommend that the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year-end.

Response/Corrective Action Plan: The City Finance Officer will be diligent in the year-end closing process to properly adjust balance sheet accounts.

Finding No. 2008-1: Internal Control Deficiencies

Conditions: Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. The following deficiencies in internal accounting control and record keeping were noted:

Disbursement Process

1. Of the 20 disbursements tested, we noted four instances of misclassification of expenditures that were expensed which should have been included as construction in progress or capitalized assets at year-end based on the type of the expenditures and capitalization policies of the City.

Payroll Process

2. No actual time studies have been periodically performed to substantiate the allocations of employees' time to various funds and/or expense functions.

Criteria and Effect: These deficiencies resulted in diminished assurance that transactions were properly executed and recorded.

Recommendations:

1. We recommend that expenses are included in construction in progress and capitalized if in accordance with the City's capitalization policy.
2. We recommend the allocations of time approved by the City Council be periodically substantiated by actual time studies performed.

Response/Corrective Action Plans: The City Finance Officer will annually review construction in progress activity. The City personnel will begin performing time studies at least annually or when an employee's job responsibilities substantially change.

CITY OF WHITEWOOD

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
DECEMBER 31, 2010**

B. Current Year Audit Findings and Recommendations (Concluded)

Significant Deficiencies

Finding No. 2006-5: Segregation of Duties

Condition: The City Finance Office lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for a finance office with only a few employees.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Recommendation: We recommend a member of the City Council and the Finance Officer continue to review the bank statements, including cancelled check copies, and adjustments to customer accounts, in detail, to mitigate the risk of misappropriated cash receipts and disbursements. Also, we recommend an Assistant Finance Officer continue to prepare the claims listing and mail the checks prepared by the Finance Officer.

Response/Corrective Action Plan: The City personnel will continue to perform the mitigating internal controls.

Finding No. 2010-7: Budgetary Overdrafts

Condition: The City had \$72,369; \$679; and \$24,224 of budgetary overdrafts in Highway and Streets, Sanitation, and Debt Service, respectively, during the year ended December 31, 2010.

Criteria and Effect: Budgetary overdrafts are a violation of South Dakota Codified Law 9-21-9.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.

Response/Corrective Action Plan: The City Finance Officer will meet with the finance Commissioners at year end to review balances in the budget and make necessary supplemental appropriations.